1812

THE NATIONAL CITY BANK OF NEW YORK

1917

Economic Conditions
Governmental Finance
United States Securities

NEW YORK, JANUARY, 1917

Peace Proposals.

IF the influence of peace upon general prosperity was to be judged by the effects of the first official efforts for its restoration, as seen on the stock exchange after the publication of the German Chancellor's proposals and President Wilson's communication to the belligerent powers, we should have to conclude that it would be very harmful. However, the slump in the market was anything but a deliberate reappraisal of values. It was more of a psychological phenomena. The situation was inherently weak with a great amount of stocks carried upon margins, brokers' loans being above any previous record. This was a natural result of the great gold importations, easy money and big earnings. There was a general desire to get out of the market before the end of the war, and at the first sign of definite developments toward peace a rush started, helped along by vigorous short-selling. The buying power of. marginal accounts is very great in putting the market up, and the compulsory selling out of these accounts as margins are exhausted is an equally great influence in putting it down. The liquidation has cleared away an artificial fabric of support and improved the general financial situation.

The declines were mainly in the industrial stocks in which speculation has been active, railway shares being affected in minor degree and bonds scarcely at all. In fact the area of serious disturbance was comparatively small although the sum total of transactions made another striking showing of the magnitude of the New York market, reaching 3,095,000 shares on December 21st.

Of course the war has made unusual profits in many lines, for it has created an enormous and imperative demand upon existing means of production. To whatever extent capital values have been inflated by over-estimating the duration of these earnings, of course a readjustment would have to be made, but it is also true that a great many of these companies have made very substantial additions to their assets during the last year and a half. As a general thing the industrial companies are in very much better condition than they were two years ago, and this must be taken into account in judging the situation. The railway stocks have not been lifted by the war, although railway earnings have benefited by the general industrial activity, and on the whole the stock market is probably on a more conservative basis now, assets considered, than when the war began.

After the War.

The end of the war is not yet in sight, but when it comes there will be undoubtedly a letting down of this abnormal foreign demand for our products, and a lowering of prices and profits; although this may tend to check buying for a time the country is under tremendous momentum and the war business is now a small part of the total. With a drop in prices to somewhere near normal levels there should be a renewed impetus to our industries. Although our exports will fall off and our imports increase these changes will come gradually. The first effect will be a shifting of the demand from war goods to peace goods. There will be an enormous amount of work to be done in the world, in Europe to restore a state of industrial order and in other countries to make up for the time that has been lost. There will be a great outlet for our agricultural implements and for machinery of various kinds to make up the loss of man power. The shipbuilding industry will have a long program ahead of it, and its requirements will be an important factor in the steel market. The railways of Europe will need new equipment, and there is every reason to expect the steel and equipment companies to have plenty of business, although the prices and profits of war business are not to be expected and costs must be lowered to correspond.

The demand for our raw materials, such as lumber and the metals, and for agricultural products, will be good. A reduction of the number of meat animals has occurred in Europe, which will require years to replace, and the loss of horses threatens to interfere seriously with farm operations. These are some of the prolonged effects of the war.

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Finally, there is work which ought to be done in this country, and which is delayed by the high costs now prevailing. In one immense field it is known there has been failure for ten years to keep pace with the country's development, and that is in the improvement of railway facilities, particularly at the terminals. Now that the advantages of electrical propulsion are fully demonstrated there is opened an enormous opportunity for construction work in that field. It is greatly desired, for the good of the general industrial situation that the particular uncertainties which attach to railway investments, by reason of the public attitude toward them and their relations with organized labor, should be cleared up, so that the great work of development in this field may go on. It means security to all the industries, and full employment for the wage-earners in the transition period following the war, besides improved transportation service and great economies. Here is an opportunity for statesmanship where great practical benefits to the country are possible.

The Foreign Field.

The opportunity to extend American trade abroad should be much better in the years following the war than during the war. The extraordinary demands upon us, the scarcity of materials, high prices and general derangement of trade, have handicapped new efforts in the foreign field. Moreover, we are able now to enter this field in a new capacity, that of an investor and organizer. The United States has become much the richest country in the world. Even before the war its annual gains available for investment were as great as those of any three other countries, and our pre-eminence in that respect is now greater. Our steel-making capacity is equal to that of all the rest of the world, and the same is true of our tool-making and machine-building capacity.

We have, therefore, the equipment for supplying the very things which after the war all the world will be wanting. There has never been a time when there was such pressing need for improved appliances for increasing production as there will be after the war. It is by this means that the wastes of the war must be made up. We can go out to the undeveloped countries and put into the hands of their people the means of opening new stores of wealth not only for themselves but for the common supply. The making of munitions, however profitable and however it may be justified, has its dark side, but there is no dark side to the business of supplying the implements of industry. The more it prospers the greater trade there will be for everybody.

Responsibilities of Leadership.

According to the statistics of wealth and the showing of productive powers we have come into a position of leadership, but are we going to lead in as positive sense? Are we going to make ourselves felt in the organization and advancement of the world? If we really set about doing this, and have anything like a national appreciation of what we can do, we need have no uneasiness about business opportunities after the war. There is no limit to the opportunities in Latin America, in China, in Russia, and elsewhere.

Leadership, while nominally a position of command, is equally a position of service. It depends upon ability to confer benefits upon those who acknowledge the leadership. A creditor nation cannot be a mere sucker, always drawing upon the rest of the world to heap up wealth at home. It must be an active participant in affairs beyond its borders. The wealth which other people owe must be left with them, or employed with them, while they need it for their development. This is the policy by which Great Britain built up her great foreign interests and by which Germany so rapidly increased her importance in world trade and finance, and as an industrial nation.

We can have some idea of the policy the people of this country should pursue at this time and after the war by imagining the course that a single large but harmonious family, whose membership included all the trades, would follow under similar pressure from outside for all its products. We can picture in our minds the family councils. We may be sure that the situation would be recognized as the opportunity in a life time to improve the position of that family, by exerting itself to the utmost to meet the demands upon it. It cannot be supposed that any member of a practical, hard-working, ambitious family under such circumstances would want to restrict either its production or sales, or be willing to fall short of his best efforts, not merely to take advantage of the opportunity for profit, but of meeting effectually the demands upon the group. It is safe to say that whatever tendencies there might be at other times to personal ease, to indifference to family welfare, to extravagance or to family bickerings, an occasion like this would put an end to them. In short we may be sure that they would be united in giving their energies to the emergency before them.

We cannot expect all the people of a nation to have as intimate a knowledge of their common interests as the members of a family have, but after all the analogy is sound, and the policies that are good for the family group are good for the nation group. There were never such arguments or such inducements for a people to

come to a good understanding with themselves, and to study their common interests, as these which press upon the people of the United States today. We are passing through times when ability, competency, readiness and willingness to render service beyond our borders counts as never before, and will be compensated as never before.

General Business Conditions.

The past year has been one of the most extraordinary in the history of the country. The demand for labor has constantly exceeded the supply in practically every branch of industry, and the competition of employers has effected a constant advance of wages. In the steel industry the aggregate of advances during the year was thirty per cent. and they were almost as great in the other leading industries. No trouble has been experienced to sell goods, and the profits of business have been, as a rule, highly satisfactory, as a result both of good prices and of operations to capacity.

In the latter part of December there have been reports of a slowing down of the demand for steel, but the unfilled orders of the United States Steel Corporation at the close of November were at the highest point on record, and a million tons above the figures of the previous month. Indeed the mills are booked up so far ahead that this fact alone is sufficient to put a check upon new business.

There is no complaint any where of a lack of orders, but there is widespread complaint of car shortage. This seems to be the limiting factor in the industrial situation.

Exports continue at a record-breaking rate, the total for November being $517,900,000. as compared with $327,670,353 in November, 1915, and $278,244,191 in November, 1912, the highest November before the war. The imports in November, 1916, were $177,000,000, against $155,496,175 in that month of 1915, and $153,094,898 in November, 1912. The trade balance for November was $340,900,000, and for eleven months, $2,774,400,000, which makes it certain that the credit balance for the calendar year will be above the enormous total of $3,000,000,000.

The final government report on the 1916 grain crops raised the total for spring and winter wheat to 640,000,000 bushels, an increase of 32,000,000 over the last previous figures, for which the country is grateful. Corn is placed at 2,593,000,000 bushels; oats at 1,252,000,000 bushels. Wheat broke badly upon the peace news, and has been off about 50 cents per bushel from the highest price of the year.

The winter wheat acreage is slightly above last year's, and the condition of the growing plant slightly below the ten year average.

The cotton crop has turned out larger than expected, the ginnings to December 13th, amounting to 10,845,989 bales. The government's estimate on the crop is 11,511,000 bales, and for 1915 was 11,161,000 bales. The price has suffered a recession from about 21 cents per pound in the closing days of November, the highest recorded quotations in forty-three years, to about 16 cents, or a drop of approximately 5 cents per pound. The concensus of market opinion seems to be that there is cotton enough to provide for consumption until the new crop is made, and present prices will probably induce a large planting.

Cattle, hogs and sheep continue to command high prices, and wool and hides are important commodities on which there have been no recession of prices. Purchases to clothe the armies are the leading influence upon wool and leather. The contract price of wool to be taken from the sheep's back next May or June is now close to $1.00 per pound, clean landed. Leather has taken a great leap in the last two months and nearly or quite doubled in price since a year ago.

There is no falling off as yet in the demand for shoes or for textiles, as a result of the high prices, and the mills and shoe factories are working to capacity. It remains to be seen whether retail distribution will hold when the consumers face the new prices.

The Money Market.

The excitement of the stock market was not reflected in the banking situation. While loans upon stock exchange collateral were high in the aggregate they were amply secured, and liquidation was without demoralization. The rate of interest was scarcely disturbed. Undoubtedly, the volume of collateral loans was considerably reduced, but the aggregate loans of the clearing house banks held up close to what they were in November. They were $3,357,047,000 on November 4th: $3,370,098,000 on December 2d, and $3,344,183,000 on December 23d.

Since the flurry in call rates about December 1st, money, both on call and for commercial loans has maintained an even position, ranging from 4 to 4½ per cent. The feeling is that money will not, in the near future, be pressed on the market as freely as has been the rule during the last two years.

The most notable feature of the financial situation for six months has been the steady movement of reserve money to the interior, and that has not come to an end. Direct shipments by the banks have been large, not only to reserve cities, but to country correspondents. On November 4th last, the clearing house banks of New York held $474,675,000 in vault and $229,297,000 in authorized depositories, chiefly the Federal reserve bank of New York. On December 23d, they held $418,942,000 in vault and $239,922,000 in depositories, and in the meantime the importations of gold through this city have been approximately $130,000,000. All of the latter has not reached clearing house banks, but the showing is remark-

able, particularly as the cash holdings of the Federal reserve banks have not increased in any corresponding degree. Undoubtedly a very large amount of money has been taken up in circulation, as a result of the great activity of trade and high prices. A sign of this appears in the enormous call upon the Treasury for small denominations. It is unfortunate that the Federal reserve notes are not the main source of supply for this currency.

The principal items of the New York clearing house bank statement on December 23, 1915, and December 23, 1916, are shown by the following table:

	1915.	1916.
Loans	$3,211,857,000	$3,344,183,000
Net Demand Deposits	3,255,610,000	3,300,759,000
Net Time Deposits	149,546,000	166,082,000
Reserve in Vault	485,263,000	418,942,000
Reserve in Depositories	222,203,000	239,922,000
Excess Reserve	145,892,000	90,064,000

Considering that the reserve banks still have large lending capacity the reduction of the surplus reserves in New York in the course of the year is not in itself a matter of concern, but it is very interesting as showing that the country has more than absorbed the new gold supplies.

The Federal Reserve Banks.

The following statement shows the figures foı the principal items of the combined statement of the twelve Federal reserve banks on December 17, 1915, and December 15, 1916:

	1915.	1916.
Gold Reserve in Banks	$334,887,000	$435,302,000
Gold with Reserve Agents	187,840,000	273,274,000
Total Gold Holdings	$522,727,000	$708,576,000
Commercial Paper	52,696,000	160,666,000
Bonds, Warrants, etc.	28,123,000	65,010,000
Member Bank Deposits	397,879,000	643,136,000
U. S. Treasury Deposits	15,000,000	28,762,000
Fed. Res've Notes Outst'ng.	181,362,000	289,778,000

The cash reserve against deposits after setting aside a 40 per cent. gold reserve against reserve notes outstanding was 90.9 in 1915 and 70.2 per cent. in 1916.

The amount of earning assets in the banks has materially increased during the year, and all of them have begun dividends, although several have considerable arrears to make up. With a continuance of the present money market they will be able to make good progress in so doing.

The cash reserve on December 2, 1916, $443,209,000, after providing for the reserve against notes was practically twice the amount required to be held against deposits, hence there was a surplus of $221,654,000. This would permit a theoretical expansion of note circulation to the extent of about $550,000,000 provided the additional issues did not involve a loss of reserves. If gold was wanted for export only the amount of the surplus could be had from the banks without a contraction of loans, or creating a deficit in the reserves. Here, however, the gold in the hands of the reserve agents would come into play. By substituting commercial paper, sixty per cent. of this gold could be withdrawn. It appears, therefore, that it would be theoretically possible to release about $385,000,000 of gold from the present holdings of the reserve system, if the resources of the twelve banks were consolidated and every bank was stripped down to the limit of its reserves. Still more could be released by making the banks subject to the penalties provided for a deficit in the reserves, which, of course, would only be done in an emergency.

While in case of emergency the Federal Reserve Board would presumably call upon the reserve banks to support each other, ordinarily they must stand independently and maintain surplus reserves independently, and this makes the reserves very much less effective. The only bank upon which any considerable calls for gold for export are likely to fall directy is the one at New York. Settlements for the whole country in the foreign trade are made through New York. It is true that when New York settles for other sections it must be reimbursed by them, and ordinarily no difficulty is experienced, but if the movement should amount to heavy withdrawals of deposits from New York in gold, it conceivably might be embarrassing if the reserve system did not have the gold here. For this reason the steady and immense movement of gold from New York to the interior is something to ponder over seriously. A movement of this magnitude in any one direction is so abnormal that it is likely to be followed, sooner or later, by a similar movement in the other direction.

The distribution of gold among the Federal reserve banks during the past year is shown by the following table, which gives the holdings of each of the twelve banks on December 17, 1915, and December 15, 1916, and of the reserve agents on the same dates. Gold certificates are included:

GOLD AND GOLD CERTIFICATES

	In the Federal Reserve Banks (In Thousands of Dollars)		With Federal Reserve Agents (In Thousands of Dollars)	
	Dec. 17, 1915	Dec. 15, 1916	Dec. 17, 1915	Dec. 15, 1916
Boston	$17,639	$28,601	$9,320	$13,103
New York	161,711	151,876	85,820	98,875
Philadelphia	16,567	25,790	9,160	15,932
Clev'd.	19,604	34,267	10,600	10,574
Richmond	15,515	27,909	8,450	16,454
Atlanta	8,644	13,100	12,700	21,278
Chicago	41,380	61,393	4,380	5,513
St. Louis	8,935	13,999	7,950	12,801
Minneap'ls.	6,796	16,455	14,000	20,331
Kas. City	9,542	23,623	9,000	19,777
Dallas	14,058	19,540	11,290	23,533
San Frs'co.	14,496	18,749	5,170	15,103
Total	$334,887	$435,302	$187,840	$273,274

The net imports of gold for the eleven months ended with November, as given out by the Treasury department were $399,600,000. The net imports for December have been sufficient to raise this total to not far from $500,000,000, and our domestic production has exceeded industrial consumption by about $60,000,000. Of these

gains the reserve system has acquired about $187,000,000. The national banks held on September 12th, the latest date for which figures are available, $529,725,000, against $569,363,000 on September 2, 1915. This loss of about $40,000,000 has been due to the payment of deposits into the reserve banks. The net gain of gold in the year in the reserve system, including member banks, has been only about $147,000,000, a very unsatisfactory showing.

One explanation of the failure of New York to retain any of the gold imported during the year is to be found in the subscriptions of this locality to the foreign loans. Our enormous exports have originated mainly in the other districts, they have been paid for partly in gold and partly in securities. New York has, doubtless, taken more than its proportion of securities, domestic and foreign, with the result that the interior has received more than its proportion of the gold.

Financing Our Exports.

The enormous volume of our exports, which made a new record in November, compels unremitting attention to the problem of how payment is to be received. Since the withdrawal of the proposed issue of British Treasury bills in this country, in deference to objections raised by the Federal Reserve Board, no new plan of financing has been proposed, and gold shipments have been resumed on a large scale. It is understood that new government orders in this country will be restricted, and the new British ministry is expected to take steps to more stringently control private expenditures, particularly for luxuries and imported goods.

A British loan of 100,000,000 yen was offered to the public in Japan early in December and readily taken. It is understood that payment is being made in exchange on New York, converting Japanese credits here. This helps the situation to the extent of $50,000,000. The loan is in the form of three-year Exchequer bonds bearing six per cent. interest. The *London Times* in announcing the success of the flotation says that a noteworthy feature of it is the fact that "no request for collateral was made by the Japanese syndicate which arranged the loan."

The circular of the Federal Reserve Board upon the proposed issue of British Treasury bills in this country naturally occasioned great interest in London. The *Economist* has discussed the matter temperately and sensibly. In its issue of December 2nd it said:

> It has been somewhat hastily assumed in many quarters in the city that this pronouncement has been produced by German-American influence; but in view of the inflation and speculation now rampant in the United States, the Federal Reserve Board has plenty of reason to tell the banks there to restrict their investments, concentrate their gold in its hands, and generally keep their powder dry. Whether the Board's advice is wholly sound, time will show. It might have been thought that, with a view to control of foreign exchange after the war, a mass of European obligations falling due would have been a good asset. America could have called for their repayment at face value, but if she buys back her own securities, she will have an asset saleable only at a market price. Perhaps the Board thinks that America already has enough control of this kind, and perhaps it is right. But whatever the cause of this manifesto, and whether it be well advised or no, it will undoubtedly make our financing in New York more difficult, and we must at once set about meeting this difficulty. Since America wants gold we and our Allies must find it and ship it, and we must also prepare to ship securities of the kind that the Federal Reserve Board recommends to investors. Above all, we must increase production and reduce consumption, so that we have to import less from America, and may be able to pay for more of what we import by shipping goods. If we set about these things seriously, and make full use of our productive power for war, instead of frittering it away on unpatriotic self-indulgence, the Federal Reserve Board's action may have a salutary effect on our financial position.

Reserve Bank Agency in London.

The action of the Federal Reserve Board in approving of the appointment of the Bank of England as agent in London for the Federal Reserve Bank of New York does not, upon its face, have any special significance at this time. The Federal Reserve Act contemplates that such arrangements will be made in all important countries for the handling of exchange transactions and with a view to controlling or modifying the movements of gold in ordinary times. It has been common practice for the central banks of issue to have a portfolio of foreign bills for this purpose. The present times, however, are extraordinary, and the gold movements are upon a scale beyond any ordinary measures of control.

The newspaper reports from Washington which accompany, the announcement connect it with the Board's disapproval of the British Treasury bills, as though it might be regarded as in some degree compensatory, or serviceable to the same end. Mere trading in foreign exchange will have no effect upon the situation, but, of course, to whatever extent the reserve banks will buy and carry commercial bills on London they will accomplish the same purpose that the Treasury bills would have accomplished. The latter were to be government obligations, and, although issued as a means of paying for purchases in this country, would not have been directly related to them in such a way as to make them eligible for purchase by the reserve banks. On the other hand commercial bills may be purchased by the reserve banks, either from the member banks or in the open markets of this country or abroad. The Treasury bills would have been payable in this country in terms of dollars, but commercial bills on London, unless issued under special arrangements, will be in terms of sterling, and subject to any fluctuations in the exchange rates which may occur before they are liquidated.

Gold For the Reserve Banks.

We have received numerous letters called forth by the discussion in this publication of the importance of increasing the gold holdings of the reserve banks and the means of doing so. Among them is one from Prof. H. S. Foxwell, of the Chair of Political Economy of the University of London, and one of the eminent economists of Great Britain. Prof. Foxwell says:

Reading the excellent remarks in your November circular, especially on pp. 5-6 on "How to Concentrate Gold Holdings"—with which, I may say, I entirely agree—it occurred to me that the writer might be interested to refer to, if he has not already seen it, an admirable article by M. Jean Lescure, one of the ablest of French economists, in which the same point is developed.

It will be found in the Revue d'Economic Politique (Paris), the number for January-February, pp. 59-80. The title is "La Reforme du Systeme Bancaire aux Etats Unis."

He regards the absorption of gold by the non-banking Treasury as the radical weakness of your system, and urges, as you do, that the gold should be bought for Federal Reserve notes.

In thinking over this question of gold certificates, I have found myself in difficulty because I do not know in what denominations they are issued and therefore cannot judge how far they enter into circulation as freely as coin or notes would do. You speak of them as appearing "in all cash payments of any size," and as "in the pockets and hoards of the people," from which I gather that they must be reasonably small denominations.

We have looked up the article referred to by Professor Lescure, of the Law School of Bordeaux, and find it to be an interesting one, describing the Federal reserve system. While commending it generally, the author puts his finger upon the inability of the reserve banks to acquire gold as the chief point for criticism. He says:

Will the Federal Reserve Banks succeed in normal times in constituting strong reserves in gold? * * * We doubt it. Will not the Federal Reserve Banks have to raise their discount at the slightest alarm, perceptibly, too much and too often? * * * The essential fault of the American Federal System appears to us to consist in the insufficiency of gold reserves which it will accumulate in the Federal Reserve Banks, and in the impossibility for the Federal Reserve Banks to play, in case of war, the role that in Europe is the lot of the central banks. The United States would lack this marvellous credit instrument which is the bill at forced currency issued by a large bank endowed, from the time of peace, with a great gold reserve.

In fact, the American monetary organization presents a difference compared to the European circulation, which seemed up to the present not to have drawn any attention and which undoubtedly explains this hiatus of the American Monetary System, we were about to say, inferiority. In Europe, the gold market is in the central bank; in the United States, it is in the money house, that is, the treasury. While in Europe, gold coin and ingots automatically return to the Banque de France, Banque de Russie, and Banque d'Angleterre, in the United States, gold, produced in enormous quantity in this country favored by nature, returns to the Treasury where same is exchanged for gold certificates. And under these conditions, gold, represented in circulation by paper, instead of accumulating in the vaults of the banks, accumulates in the vaults of the Treasury, where it is exchanged for gold certificates. In Europe, it would accumulate in the vaults of the central bank, where it would be exchanged for bank notes. But, if one remembers that the circulation of gold certificates accrued in 1912, fiscal term, $105,000,000; that in the midst of the crisis of 1907, the gold accumulated in the Treasury in exchange for gold certificates, amounted to $670,000,000, one realizes the enormous stock of gold which was unused in the Treasury by this system. In case of war, without contradicting the definition and appellation of this certificate, one could not force the currency of gold certificates and increase the amount of same. Besides, one could not confine this metallic treasure to the Federal Reserve Banks in order to allow them to place into circulation bills, forced. This gold is the guarantee of the bearers of gold certificates. The American reform therefore should be completed by a law which would organize the return of gold to the Reserve Federal Banks. Substituting the Reserve Federal Note for the Gold Certificate.

From that day the United States might be considered as the most powerful financial country in the world, while at the present time it is not so at all. From that day, in fact, the gold reserve of the American banks would surpass, and greatly surpass, the gold reserve of the most powerful banks of Europe. Notes secured by this deposit would enjoy the most extensive credit. Withdrawal of gold, even in considerable amounts, would have no influence on the rate of discount. And in case of war, the new note would constitute an instrument of credit of the first rank for the American commonwealth. Such is mainly what is needed to supplement the new legislation.

This criticism, published two years ago, before the heavy importations of gold into this country had begun, has been fully justified by the failure of the reserve banks to obtain a due proportion of increasing supply. There is now convincing proof that the system is weak in this respect. The Federal Reserve Board will renew its late recommendations to Congress, and, we understand, propose, a more comprehensive plan of dealing with the matter.

Treasury Finances.

The report of Secretary of the Treasury to Congress, for the fiscal year ended June 30, 1916, shows receipts into the general fund, including various trust funds, but excluding postal revenues, were as follows:

Customs	$213,185,845.63
Internal revenue:	
Ordinary	303,486,474.04
Emergency taxes	84,278,302.13
Corporation income tax	56,993,657.98
Individual income tax	67,943,594.63
Sale of public lands	1,887,661.80
Mint service	4,354,613.12
Panama Canal tolls	2,869,995.28
Miscellaneous	47,534,403.16
Total	$782,534,547.77

The expenditures from the general fund were as follows:

For civil establishment	$204,038,737.91
For military establishment	122,392,362.98
For soldiers' homes, cemeteries, etc.	9,792,912.14
For rivers and harbors	32,450,301.55
For naval establishment	155,029,425.78
For Indian service	17,570,283.81
For pensions	159,302,351.20
For interest on public debt	22,900,313.03

For Panama Canal	17,503,728.07
For miscellaneous	1,016,310.50
Total	$741,996,726.97

The excess of receipts over disbursements in general fund was $40,537,820.80.

For the fiscal years ending June 30, 1917, the Secretary estimates income as follows:

	1917.	1918.
From customs	$230,000,000	$230,000,000
From internal revenue:		
Ordinary	319,000,000	319,000,000
Emergency taxes	124,000,000	145,800,000
Corporation income tax	133,000,000	133,000,000
Individual tax	111,750,000	111,750,000
Panama Canal tolls	6,500,000	10,000,000
Sales of public lands	2,000,000	2,000,000
Miscellaneous sources	58,000,000	56,000,000
Total	$984,250,000	$1,007,550,000

Disbursements for the fiscal years 1917 and 1918 are estimated as follows:

	1917.	1918.
For civil establishments	$231,693,000	$240,876,000
For military establishment	307,900,000	412,860,000
For rivers and harbors	45,000,000	38,000,000
For miscellaneous, war, civil	7,250,000	13,194,000
For naval establishment, exclusive of building	159,965,000	150,162,000
For building program, new	66,586,000	96,962,000
For building program, prior years	28,369,000	118,946,000
For Indian service	30,000,000	28,000,000
For pensions	158,063,000	155,558,000
For interest on the public debt	23,300,000	23,454,000
For Panama Canal	20,000,000	20,000,000
Nat'l bank note redemptions	10,000,000	10,000,000
Miscellaneous redemptions, public debt	50,000	50,000
Total	$1,088,176,000	$1,308,071,000

A deficit is indicated of total disbursements over total receipts of $103,926,000 in the fiscal year 1917 and of $300,521,000 in the fiscal year 1918. The committees of Congress have the situation under consideration, and are expected to submit a supplementary scheme of taxation to meet at least a part of the required sums, a sale of Panama bonds to cover the remainder.

Bond Market in 1916.

The feature of the bond market for 1916 has been the amount of financing conducted in the New York market for the account of foreign governments. Although many foreign issues, including the largest single offering ever made in the United States, the Anglo-French 5's, were brought out in 1915, the development of this foreign financing and the education of our bond buyers along the lines of world-wide investments have been greatly extended in 1916. During the year $550,000,000 British Government Secured Notes, $100,000,000 American Foreign Securities Notes (French Loan), $75,000,000 Russian Government Bonds, $75,000,000 Dominion of Canada Bonds, $86,000,000 French Municipal City Loans, $49,650,000 Argentine Government Discount Notes, and many smaller issues of the belligerent and neutral powers have been sold in the United States. It is conservatively estimated that $2,175,000,000 foreign Government bonds, notes and short term credits, financed in the United States since the beginning of the war, remain outstanding at this writing. On August 1, 1916, it was estimated that approximately $1,300,000,000 railroad securities have been resold or pledged under loans placed in the United States. Adding to these figures other securities returned and the continued heavy importations of gold in settlement of our favorable trade balance, the increased importance of the United States as a factor in world finance is readily recognized. Although the market for foreign issues during the month of December has been somewhat unsettled, together with the general security market, nevertheless the high yield of these securities and the payment in United States in U. S. gold, have made the external obligations of foreign Governments with good credit a desirable investment for our people.

In comparison with foreign offerings, the total of new domestic loans have been relatively small. There have been, however, a number of important railroad, industrial and municipal issues, such as: $80,000,000 American Telephone & Telegraph Collateral 5% Bonds, $40,180,000 Chesapeake & Ohio Railway 5% Convertible Bonds, $50,000,000 Midvale Steel & Ordnance 5% Collateral Trust Bonds, $25,000,000 New York State 4% Bonds, $55,000,000 City of New York 4% Corporate Stock, $20,000,000 Armour & Co. Real Estate First Mortgage 4½% Bonds and $14,451,000 Delaware & Hudson Convertible 5% Bonds.

A prosperous period of earnings has greatly helped the railroad and industrial companies to provide for improvements and extensions out of income. Even short term obligations that appeared burdensome at the beginning of the war have been satisfactorily provided for in many cases. The year 1916 has been especially favorable for the reorganization of companies which found themselves in financial difficulties. Although it has been necessary for our home industries to compete with the high yield of foreign loans, nevertheless, the demand for domestic securities has been sufficiently strong to enable the companies to arrange for their requirements on favorable terms.

The total bond sales on the New York Stock Exchange for 1916 amounted to about $1,150,000,000, which is the largest annual turn over on the Exchange since 1909, and the second largest in the history of the Exchange. Considering that these transactions represent only a small percentage of the total bond trading of the country, the volume of investment business conducted

during the past year is easily recognized as having been very large. The average price of forty listed bonds on December 26, 1916, as compiled by the *Wall Street Journal*, was 94.97, compared with 94.03 a year ago.

The rise in connection with the large volume of trading and the new financing conducted in the United States during the past year speaks well for the power of absorption by American investors.

The market for municipals has been very firm throughout the year, and indications point to an increasing demand for this class of securities. The increase in the Federal Income Tax has decidedly strengthened the market for municipal bonds.

At the close of the year the bond market has become less active than during recent months, due to the violent break in the stock market. Our economic position, however, remains sound fundamentally, and warrants the belief that the demand for high grade bonds will continue during the coming months. On account of large earnings, corporations are accumulating funds that should be kept in liquid form through the purchase of bonds that are readily saleable, and individuals are receiving increased incomes that will be available for safe and permanent investment.

The American International Corporation.

The first payment of $10 per share upon the capital stock of the American International Corporation was made on December 15, 1915, and subsequent payments of equal amount were made on January 15, June 9, July 10 and August 10, 1916. The average amount of capital employed for the period to December 6, 1916, was $15,841,906.25, and the earnings above organization expenses and operating expenses were calculated as $2,231,495.04. The appreciation of stocks and bonds acquired is not included, except so far as they have been disposed of. A dividend of 75 cents per share was ordered to stockholders of record December 15, 1916.

The Corporation is interested through the Siems-Carey Company, a subsidiary organization, in a contract with the Chinese government for the construction of something over 1,000 miles of railway in China, the surveys for which are being made. Negotiations are pending for a contract for dredging a portion of the Grand Canal, once an important waterway, the service of which has been much impaired by floods filling it.

The corporation has acquired a controlling interest in Carter, Macy & Company, a long established firm in the tea business, with offices in China, Japan, India and Ceylon. The business is an old one, affording an opportunity for the profitable employment of increased capital which has been supplied.

Investigation is proceeding along numerous lines into opportunities for supporting and developing American interests abroad, which is the field to which the Corporation is especially devoted.

Silver.

The London quotation upon silver has risen from about 32¼ pence in the latter part of October to 36$\frac{11}{16}$ pence, which compares with 37⅛ pence in May last, the highest point in many years. The London market is based upon silver 925 fine, which would make 36 pence the equivalent of 77.8 cents for silver 1,000 fine. The situation is strong, owing to small output in Mexico and the low state of supplies both in China and India. The demand for India and high prices prevailing last May started a considerable movement of silver from China, and now that the Chinese export season is on, the demand is strong there. The Indian currency reserves are much lower now than a year ago, while the currency issues are considerably higher, which points to a continuance of government purchases. Our advices indicate that up to the middle of October these purchases had amounted to $40,000,000 to $50,000,000. Currency notes are used in India for remittances and larger transactions. Payments to the natives for labor and the crops are in the silver rupees, and the government treasury must keep itself in position to cash the paper money. Important shipments of silver have been going forward from San Francisco both to India and China.

Present prices for silver are very remunerative to producers, and the production of the United States will doubtless show a new record for 1916.

Jacksonville Docks.

We have made mention recently of the important development that has taken place in the last two or three years in the way of supplying modern storage and terminal facilities, referring particularly to what has been done at New Orleans, Memphis, Atlanta and Seattle. Our attention has been called to similar progress at Jacksonville, Florida, where by act of the legislature the city was authorized to issue bonds to the amount of one and one-half million dollars for the purpose of acquiring sites and constructing docks, belt line, warehouses, compresses, etc. The total number of acres acquired is 144, fronting on a harbor, which is connected with the sea by a thirty-foot channel now being dredged by the Federal government. Two piers, each 1,000 feet long by 260 feet wide, are ready for business, with two steel warehouses 800 feet long by 73 feet wide. The municipal belt line connects the warehouses with all railways. The most modern cotton compresses have been installed, the fire protection is such as to secure the lowest rates of

insurance, and facilities of every kind are the best that can be provided. The entire terminal, including the belt line and warehouses, is under the management of a Port Commission, created by State law, and consisting of fifteen citizens of Jacksonville.

We can only say of this enterprise, as of the others like it, that it represents a most gratifying development. This country has been slow about organizing and providing proper terminal and warehouse facilities, but now that the movement is well started, we may expect to make rapid progress.

Price Regulation.

The demand for an embargo on wheat is less audible, but the investigation of food prices and the boycott campaigns go on with as much fervor as though high prices were not ruling in every field. It is doubtless well that there should be official inquiries in order that the facts may be authoritatively stated, but there are enough obvious facts to create the presumption that all food and materials are higher for legitimate reasons. Russia is ordinarily a natural source of food supplies for Great Britain, and these are largely cut off, resulting in greater dependence on this country and Canada. Reports to the Department of Agriculture show that on November 1st, the number of cases of eggs in cold storage was 24.2 per cent. less than at the same date of 1915, and that the stock decreased 25.1 per cent. in October. The stock of butter in storage was 14.5 per cent. less than a year ago, the stock of cheese 1.1 per cent. less, and of apples 43.7 per cent. less.

In the discussion of food prices much is said in haste, without knowledge of the facts. The storage of perishable food products is a highly speculative and competitive business, involving risk, because the weather is a large factor in the supply. It is an open field. Cold storage warehouses are usually public warehouses where any body may rent space. Every few years there is a lot of newspaper publicity over money made by the storage of products, but not so much is said publicly of the losses that occur in the same business.

When prices are high there is always indignation over the fact that products remain in storage, but how high would prices be if there were no products in storage? The fact that they are there is an influence upon prices, and the more there are there the greater the influence.

The theory of the critic is that the owner holds to make prices go up, but he usually holds because he thinks prices will go up, and it can hardly be said that there is any moral turpitude in that. All commodities are carried forward in the belief that they will be worth more at a later date, and this is a public service, because price and supply are thereby equalized throughout the year. There is no better protection to the public than an open, free market. Arbitrary interference, as by official price regulation, is simply another risk to be encountered by the dealer, which must be covered by the margin of profit. It is only justified in some great emergency, when the risks of the business become too great for individual dealers to carry, and the government may properly come forward and assume both risks and profits.

Packers' Profits.

There is no subject upon which there has been more persistent misrepresentation than that of the profits of the beef-packers, or "beef trust," although the facts are always accessible through the annual reports of the packing companies to shareholders. Mr. E. A. Cudahy, president of the Cudahy Packing Company of Chicago, in his report for the fiscal year ended October 28, 1916, shows that all sales amounted to $133,960,986, and that the net profits were $3,011,415, or about 2.2 per cent. on the turnover. He says that of the sales about $24,000,000 were of products dealt in and not derived from the animals slaughtered, including butter and eggs, cheese and cotton-seed oil products, such as soaps, cleanser, glycerine, etc. Upon dressed beef the profit during the year was less than ¼ of one cent per pound. Mr. Cudahy says:

> In the marketing of fresh meat it is quite impossible to make any very extensive profit. With exception of a relatively small amount, which is all that can be stored for more advantageous marketing, practically all fresh meat must be sold at the point to which it is shipped for distribution, and subject to whatever market condition may govern at the time. It cannot be held to await a more faborable market. The cured meats and other animal products are in many cases, distributed under our well-known and well-established trade brands, and for that reason can be marketed to better advantage than fresh meats. There is a demand for hides, cured meats, etc., from all parts of the world, which gives us many channels for distribution, and this enables us to select the most favorable time and place for their disposition. In our operations, therefore, the favorable showing made is due to a very great extent to our production and trade in other products than fresh meats.
>
> In fact, the packers are practically the collection agents of the farmer. Out of every dollar taken in from the sale of all products derived from animals, 80 cents has gone to the farmer. Out of the remaining 20 cents of each dollar, 7 cents has been paid to the wage earner, 5 cents for freight, and 4 cents for other materials needed in manufacturing and in the preparation of the goods for sale, as for instance, salt used in curing, boxes, barrels, tin cans, etc. Out of the remaining 4 cents there have been paid interest, taxes, insurance, repairs and all such items, and of the residue not quite 2 cents per dollar applies to the net profits of the company.

These figures are in line with the usual results of the business, as shown from year to year by other company reports, and confirmed by the government's investigations.

Regulation of Profits.

The proposals to put an embargo on wheat and to regulate the prices of food in the interest of the wage-earning population, bring a prompt response from the farmer. We have received the following letter, presenting a counter proposition:

New Lexington, Ohio,
November 27, 1916.

National City Bank,

Dear Sir:—Government supervision of the profit-making of corporations, etc., of the city so as to enable the farmer to pay as much in wages *to his* employes as city corporations can pay, would reduce cost of living and that of all farm products.

Labor sells its time to the highest bidder and leaves the farm. Farm produce, or food, thereby becomes short supply, *and therefore* high in price.

In this there should be government supervision, in the profit making of the corporations, and not in the price of wheat.

Supervising and lowering price of food cannot increase quantity or food value of wheat—or any other food.
Yours,
(Signed) FARMER.

Large profits are not the rule in the cities. We would refer our correspondent to the report of the Federal Trade Commission, showing that a large proportion of the corporations make no profits at all. "Farmer" probably has in mind such concerns as the Ford Motor Company, which make exceptional profits and pay exceptional wages. But the Ford Company gets its ability to pay high wages, not from high prices on its products, but from great efficiency in production. It has been a leader in reducing the price of motor cars. Shall it be penalized for this policy? Shall we have an adjustable tax that will clip off all the additional profits which any man can make by improving the methods of production? Unfortunately our correspondent is not the only person who thinks something of the kind should be done. The idea is cropping out everywhere, and dictating much of our legislation. It would be worth an inestimable amount to the people of the United States to understand the source of profits and of fortunes.

A farmer out in Washington State is said to have raised on an 18-acre field a crop of wheat averaging 117 bushels per acre. The average over the United States is 17 bushels per acre. Ed. Howe, the philosopher of Potato Hill, Kansas, says: "If that farmer has a right to raise more wheat than the average, then any other man has a right to prosper more than the average."

This question, however, does not concern merely the individual's right to prosper. The progress of the community depends upon the freedom and the incentive of the individual to plan, to strive, to devise, to initiate, to prosper, and to use the fruits of his prosperity over and over in accomplishing greater results as long as he lives.

Rights of Labor and Property.

Among the resolutions adopted by the American Federation of Labor at its recent annual convention in Baltimore was one reading as follows:

Your committee would further recommend that it be the sense of this convention that it seems to be the settled purpose of interests antagonistic to the freedom of men and women who labor to persuade and then use the judiciary to misconstrue constitutional guaranties, and thereby nullify legislative enactments so as to leave but one remedy, and we, therefore, recommend that any injunctions dealing with the relationship of employer and employe, and based upon the dictum, "Labor is Property," be wholly and absolutely treated as usurpation and disregarded, let the consequences be what they may. Such a decision as that rendered by the Supreme Court of the State of Massachusetts has its roots in class interests; it is usurpation and tyranny. Freedom came to man because he believed that resistance to tyranny is obedience to God; as it came so it must be maintained. Kings could be and were disobeyed, and sometimes deposed. In cases of this kind judges must be disobeyed, and should be impeached.

The decision which called out this extraordinary declaration was rendered in a case arising out of a conflict between rival labor organizations. A union of hod-carriers, affiliated with the I. W. W., brought an action in the courts of Massachusetts complaining that another union of hod-carriers, affiliated with the American Federation of Labor, had used unlawful pressure, by threats of sympathetic strikes and otherwise, to prevent the plaintiffs from obtaining employment, and in some instances had procured their discharge from employment. They asked for an injunction, and the defendant union set up a recent state law which declared that the right to labor and to make contracts to work shall not be treated by the courts as a property right which can be protected by the injunction process. The supreme court held unanimously that this act was a violation of the Constitution of the United States and of the Constitution of Massachusetts. The ruling is sufficiently set forth by the following extract:

If a laborer must stand helpless in a court while others there receive protection respecting the same general subject which is denied to him, it cannot be said with a due regard to the meaning of constitutional guarantees that he is afforded "the equal protection of the laws" within the Fourteenth Amendment to the Constitution of the United States and similar provisions of our own constitution. The right to make contracts to earn money by labor is at least as essential to the laborer as is any property right to other members of society. If as much protection is not given by the laws to this property, which often may be the owner's only substantial asset, as is given other kinds of property, the laborer stands on a plane inferior to that of other property owners.

The idea that there is any violation of natural rights, or degradation of labor, in this decision will strike the ordinary reader as very strange. The language of the resolution would be more appropriate if the decision had been to the contrary.

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS DECEMBER 22, 1916.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
Gold coin and certif's Settlement fund. Cr. Balances	11.552	151,752	14,042	15.386	4.665	5 555	28,390	9,982	8 584	5.550	4 864	9 305	269,627
Gold Settlement Fund	18,606	19,826	15,105	17,431	19,231	5,939	29,428	3,349	6,5[illegible]2	18,065	14,574	10,692	178,811
Gold Redemption Fund...	50	250	100	45	221	303	200	104	30	104	62	10	1,479
Total gold reserves..	30,208	171,823	29,247	32,865	24,117	11,797	58,018	13,435	15,176	23,719	19,500	20,007	449,917
Legal tender notes, Silver certif's and Sub. coin....	165	2.870	77	514	10	109	483	1.321	172	48	194	62	6,025
Total Reserves......	30.373	174,698	29.324	33,379	24.127	11,906	58,501	14.756	15,348	23,767	19,694	20,069	455,942
5% redemption fund—F. R. bank notes.............										300	100		400
Bills discounted, Members Commercial paper........	6,081	4,345	5,991	995	2.902	3,366	3 600	1.460	1.952	479	845	281	32.297
Bill bought in open market	10.947	41.510	13 909	9,750	3,404	4,693	8,834	6.988	6.039	4.075	2,036	12,448	124,633
Total bills on hand..	17,028	45.855	19.900	10,745	6.306	8 059	12.434	8.448	7 991	4 554	2.831	12.729	156.930(c)
Investment U. S. Bonds ..	1.332	1,043	1.651	7,361	1.126	1,710	8.458	2.203	2,442	9,216	4,328	2,634	43,504
One-year U.S. Treas. notes	1,000	1,205	1,174	618	1,070	824	1.517	891	700	963	705	500	11.167
Municipal Warrants.......	920	1,750	719	2.682	61	402	1.390	729	672	164	127	941	10,557
Total Earning Assets	20 280	49.853	23.444	21,406	8,563	10,995	23.799	12,271	11,805	14 897	8,041	16.804	222,158
Federal Reserve Notes, net	810	12,213		686			1,114		2,071			2,342	19,236
Due from other F.R. Banks net........	6,032	6,820	337	3,724	1,133	1,989	15,020	9,494	566	1,599	86	2,518	49.318(b)
All other resources........	25	163	255	207	54	718	600	277	14	138	558	497	3,506
TOTAL RESOURCES.....	57,520	243,747	53,360	59,402	33,877	25,608	99.034	36.798	29,804	40.701	28.479	42,230	750,560
LIABILITIES													
Capital Paid in............	4.990	11,914	5,228	6,022	3,346	2,480	6,685	2.796	2,610	3,070	2,695	3,929	55.765
Government Deposits.....	2.365	5,520	3,167	986	2,663	3.760	2,515	2,665	912	157	1.461	3,301	29.472
Reserve Deposits, net.....	49,914	226,177	43.629	52,394	24,381	15.780	89,799	27,217	26,252	35,484	22.822	34,938	648,787
Federal Reserve Notes-net			1,154		3,456	3,533		4,120		1,990	1,501		15,754(a)
Federal Reserve Bank Notes in circulation.....													
Due to other F. R. Banks net....................													
All other Liabilities.......	251	136	182		31	55	35		30			62	782
TOTAL LIABILITIES.....	57,520	243,747	53,360	59 402	33,877	25.608	99.034	36,798	29 804	40.701	28.479	42.230	750,560

(a) Total Reserve notes in circulation 275.046

(b) After deduction of items in transit between Federal Reserve Banks, 49.318, the Gold Reserve against Net deposit and note Liabilities is 69.8% and the cash reserve is 70.7%. Cash Reserve against net deposit and note liabilities after setting aside 40% Gold Reserve against net liabilities on Federal Reserve Notes in circulation 71.3%.

(c) Maturities of bills discounted and loans: within 10 days, 24,348; to 30 days, 47,381; to 60 days, 49,375; other maturities, 35,826; Total: 156,930.

Federal Farm Land Banks.

The Farm Loan Board, appointed under the provisions of the Federal Farm Loan Act, has announced the division of the country into twelve districts, and the designation of twelve cities for the location of Farm Loan Banks, as follows:

District No. 1—Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, New York and New Jersey. Location of Federal land bank, Springfield, Mass.

District No. 2—Pennsylvania, Delaware, Maryland, Virginia, West Virginia and the District of Columbia. Land Bank at Baltimore, Md.

District No. 3—North Carolina, South Carolina, Georgia and Florida. Land bank at Columbia, S. C.

District No. 4—Ohio, Indiana, Kentucky and Tennessee. Land bank at Louisville, Ky.

District No. 5—Alabama, Mississippi and Louisiana. Land Bank at New Orleans, La.

District No. 6—Illinois, Missouri and Arkansas. Land bank at St. Louis, Mo.

District No. 7—Michigan, Wisconsin, Minnesota and North Dakota. Land bank at St. Paul, Minn.

District No. 8—Iowa, Nebraska, South Dakota and Wyoming. Land bank at Omaha, Neb.

District No. 9—Oklahoma, Kansas, Colorado and New Mexico. Land bank at Wichita, Kan.

District No. 10—The State of Texas. Land bank at Houston.

District No. 11—California, Nevada, Utah and Arizona. Land bank at Berkeley, Cal.

District No. 12—Washington, Oregon, Montana and Idaho. Land bank at Spokane, Wash.

The Federal Farm Loan Board will now advertise for 30 days for subscriptions to the capital stock of the twelve district farm loan banks. At the end of the period allowed for taking up the stock of the banks, the Government will take the amount of unsubscribed stock. The board then will appoint five Directors and the officers of each bank, after which the banks will be open for business.